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C O N F I D E N T I A L SECTION 01 OF 03 SANTO DOMINGO 005080

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STATE FOR WHA, WHA/CAR, WHA/EPSC, EB/OMA  
NSC FOR SHANNON AND MADISON; USTR FOR VARGO  
USDA FOR ITP - SHEIKH AND GRUNENFELDER  
LABOR FOR ILAB; TREASURY FOR OASIA-LAMONICA  
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E.O. 12958: DECL: 04/26/2009

TAGS: [PGOV](#) [ETRD](#) [EFIN](#) [PREL](#) [DR](#)

SUBJECT: DOMINICAN SENATORS TELL AMBASSADOR THEY'LL BLOCK  
TAX ON FRUCTOSE SYRUP

REF: SANTO DOMINGO 5024

Classified By: Ambassador Hans Hertell. Reason: 1.4 (a) and (d).

11. (C) Summary. The Ambassador obtained from Senate and PRD leaders September 8 a commitment to delete a proposed 25 percent tax on beverages using imported high fructose corn syrup (HFCS) from paragraph 9 of the pending fiscal reform legislation (reftel). The Ambassador told them the protectionist tax, if passed, would close the door to the Dominican Republic's free trade agreement (FTA) with the United States. Senate President Andres Bautista (opposition PRD), PRD president Vicente Sanchez Baret, and special committee for tax reform chair Senator Tomas Duran (PRD) said that the Senate -- with its overwhelming PRD majority -- would strike the tax from the fiscal reform bill on September 13 or 14 and immediately send their version to the House of Representatives. On September 9 on the margins of a courtesy call by Eximbank Vice President Jeffrey Miller (septel) the Ambassador urged Fernandez to support revision of the bill. House Chairman Alfredo Pacheco has told the press that the House would, if asked, pass separate legislation repealing the HFCS tax if it is included in the tax package. End summary.

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Their Position  
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12. (C) On September 8 Senate President Andres Bautista (opposition PRD) requested on short notice a meeting to discuss the tax reform package and USG requests to eliminate a 25 percent tax aimed at imported fructose syrups. The Ambassador received Bautista, along with PRD party president Vicente Sanchez Baret and PRD Senator Tomas Duran, chair of the 12-person special committee discussing the tax bill.

13. (C) Bautista said that after GODR officials and legislators had received word last week from Embassy officers of Washington's objections to the HFCS tax included at the last minute by the House of Representatives (reftel), on September 7 during three hours of Senate hearings, Finance Secretary Vicente Bengoa, Internal Revenue Director Juan

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Hernandez, and Customs Director Miguel Cocco suggested the Senate approve the bill as is, including paragraph 9, and send it back to forward to the President. The Fernandez administration would submit a separate bill that, once passed by both Congressional houses and signed into law, would repeal the provisions of paragraph 9 from the already approved fiscal reform law. Bautista emphasized the Dominicans' priority of getting the tax reform operational as soon as possible both for revenue reasons and to enable progress toward a renewed IMF accord.

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Our Position  
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14. (C) The Ambassador spoke "as a friend of the Dominican Republic, without any intention of exerting pressure." He explained that senior Washington officials were dismayed by the proposed HFCS tax, which was counter to the WTO agreements and against the spirit and letter of the FTA. USTR, part of the President's White House office, was emphatic in this view. Ratification of CAFTA was moving ahead, but a Dominican protectionist tax measure would throw a huge obstacle in the road to DR-CAFTA approval. The HFCS conflict was a clash of interests between Dominican private sector entities, the sugar producers and the bottlers. The Ambassador advised them that Congress "has the key" to FTA ratification." He emphasized, "You can open the door to the FTA, or you can slam it shut for good."

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A Position Taken

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15. (C) Bautista, seconded by Sanchez Baret, replied, "We are not going to put the FTA at risk. If the tax would do that, then we won't accept it." He said he would convoke the Senate on September 14, or -- at the Ambassador's suggestion -- possibly on September 13, and place before Senators a modified bill without the tax provision for approval on an urgent basis in two consecutive readings. The revised bill would go back to the House by the evening of September 14. Sanchez Baret said that the PRD would instruct its senators (a majority in the Senate) and congressional representatives (a plurality of 72 of 150 in the Chamber) to support this revision. Duran expressed a desire for President Fernandez to take a clear position on the matter. Sanchez Baret noted that, if Fernandez supported the change and so instructed the PLD's 42 deputies, then the final legislation "would not fail" to gain approval. However, if the Chamber rejected the revision, the GODR would have to originate a completely new fiscal reform bill, which would be open to further lobbying and modifications in both houses of Congress.

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The President's Reluctance  
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16. (C) In a subsequent private conversation with President Fernandez on September 8, the Ambassador urged him to support passage of the fiscal reform without the HFCS tax provision. The President initially objected that U.S. corn producers should not be able to influence sovereign decisions of the Dominican Republic. The Ambassador replied that much more was at stake, including the highest interests of the nation. Fernandez appeared to accept his argument, although reluctantly.

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Other Allies  
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17. (SBU) The same day, House President Alfredo Pacheco (PRD) told the press that in his opinion the Chamber would accept a bill to repeal the HFCS tax, to avoid any confrontation that could harm the social or economic development of the country. This played in the leading daily September 9 opposite a statement by influential Senator Jose Hazim Frappier, former PRSC vice presidential candidate from a sugar province, condemning free trade in sweeteners as a form of "hari-kiri" for the local industry. The American Chamber of Commerce broke its silence and wrote in strong terms to the Senate, asking that the HFCS tax be eliminated as contrary to WTO agreements and to the FTA.

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Comment  
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18. (SBU) Bautista is holding open hearings on the tax reform bill and as of Friday, September 10, there is no indication in the press of the intentions of the Senate leadership. The Ambassador's September 9 courtesy call on Agriculture Minister Amilcar Romero, previously scheduled, provided an opportunity for sugar supporters to vent and journalists to speculate about "blackmail" by the United States. The Ambassador's comments to the press afterwards were that the country has the obligation to comply with its undertakings in the FTA; the issue has many repercussions and the Dominican Republic "has the key in hand" to solve its difficulties.

19. (SBU) The Ambassador and staff will continue to maintain a low public profile on this issue, waiting for it to play out in Congress and the executive, in the expectation that participants now understand that the country's best interests lie in avoiding a self-defeating protectionist gambit and in separating consideration of tax reform from consideration of the FTA.  
HERTELL